

**REPORT OF THE AUDIT OF THE
PULASKI COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PULASKI COUNTY CLERK

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Pulaski County Clerk's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$39,344 from the prior year, resulting in excess fees of \$682,966 as of December 31, 2004. Revenues decreased by \$24,919 from the prior year and expenditures increased by \$14,425.

Report Comment:

- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were not insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darrell Beshears, Pulaski County Judge/Executive
Honorable Trudy Denham, Pulaski County Clerk
Members of the Pulaski County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Pulaski County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2005, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Darrell Beshears, Pulaski County Judge/Executive
Honorable Trudy Denham, Pulaski County Clerk
Members of the Pulaski County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comments:

- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Pulaski County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 7, 2005

PULASKI COUNTY
TRUDY DENHAM, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services		\$	6,720
Fiscal Court			17,015
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	1,837,743	
Usage Tax		7,432,154	
Tangible Personal Property Tax		3,631,950	
Other-			
Fish and Game Licenses		6,637	
Marriage Licenses		19,734	
Occupational Licenses		1,999	
Election Commission		20,576	
Deed Transfer Tax		227,999	
Delinquent Tax		287,401	13,466,193
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	70,706	
Real Estate Mortgages		135,446	
Chattel Mortgages and Financing Statements		197,635	
Power of Attorney		7,944	
All Other Recordings		82,870	
Charges for Other Services-			
Copywork		29,851	524,452
Other:			
Postage	\$	8,308	
Notary Bill of Sale		16,502	
Refunds		25,843	50,653
Interest Earned			9,968
Total Revenues		\$	14,075,001

The accompanying notes are an integral part of this financial statement.

PULASKI COUNTY
 TRUDY DENHAM, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 1,361,695

Usage Tax 7,208,712

Tangible Personal Property Tax 1,440,261

Licenses, Taxes, and Fees-

Fish and Game 6,315

Delinquent Tax 49,161

Legal Process Tax 61,065

Miscellaneous 604 \$ 10,127,813

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 233,410

Delinquent Tax 20,522

Deed Transfer Tax 216,602

Occupational Licenses 1,147 471,681

Payments to Other Districts:

Tangible Personal Property Tax \$ 1,813,913

Delinquent Tax 131,367 1,945,280

Payments to Sheriff

5,470

Payments to County Attorney

41,007

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 564,567

Part-Time Salaries 5,039

Contracted Services-

Contracted Labor 33,488

Printing and Binding 11,197

Materials and Supplies-

Office Supplies 38,578

The accompanying notes are an integral part of this financial statement.

PULASKI COUNTY
 TRUDY DENHAM, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-			
Conventions and Travel	\$	3,320	
Dues		7,197	
Postage		14,786	
Uncollectable Returned Checks		7,131	
Refunds		25,843	
Telephone		4,717	
Miscellaneous		6,501	
			\$ 722,364
Capital Outlay-			
Office Equipment			589
Total Expenditures			<u>\$ 13,314,204</u>
Net Revenues			760,797
Less: Statutory Maximum			<u>72,685</u>
Excess Fees			\$ 688,112
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>1,546</u>	<u>5,146</u>
Excess Fees Due County for 2004			\$ 682,966
Payments to Fiscal Court - January 25, 2005			<u>682,966</u>
Balance Due Fiscal Court at Completion of Audit			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. On April 9, 2004 and on August 12, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$83,677 and \$100,000 of public funds uninsured and unsecured at two depository institutions. In addition, the County Clerk did not have a written agreement with one of the depository institutions securing the Clerk's interest in the collateral.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official at April 9, 2004, and August 12, 2004.

PULASKI COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 3. Deposits (Continued)

	<u>Bank Balance</u>	<u>Bank Balance</u>
FDIC insured	\$ 100,000	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name		1,048,129
Uncollateralized and uninsured	<u>100,000</u>	<u>83,677</u>
Total	<u>\$ 200,000</u>	<u>\$ 1,231,806</u>

PULASKI COUNTY
TRUDY DENHAM, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

The County Clerk maintained deposits with three financial institutions during calendar year 2004. The deposits for two of the financial institutions were uninsured and unsecured by \$83,677 and \$100,000 on April 9, 2004 and August 12, 2004, respectively. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The County Clerk should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the County Clerk enter into a written agreement with one of the depository institutions to secure the County Clerk's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

County Clerk's Response: I will pay more attention and get a pledge of securities in the future.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The County Clerk's Office Lacks Adequate Segregation of Duties

The Pulaski County Clerk has a weakness in internal controls due to a lack of segregation of duties. We recommend the following:

- A. A qualified office employee independent of check writing and posting duties, match posting orders to checks and invoices. Initialing the purchase orders, and invoices, by this person, and making sure the invoices are marked paid can be shown as evidence of this segregation of duties.
- B. The person opening the mail keep a listing of all checks received that day, detailing date received, the check amount, who it is from, and what the check is for.
- C. The person preparing the bank reconciliation should be independent of the person responsible for receiving and posting of cash to the ledgers.

To have better internal controls, it is a best practice to keep the receipt of cash, the disbursements of cash, and the posting of cash to the ledgers delegated to separate individuals.

County Clerk's Response: (A) I have 1 clerk to post and she gives to another clerk to pay the invoices, (B) I have different clerks to open the mail, we do not have the time or the staff to list all of this information, and (C) I feel the listing of check detail run at the end of each month verifies the checks and the amount they are written for throughout the month

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Darrell Beshears, Pulaski County Judge/Executive
Honorable Trudy Denham, Pulaski County Clerk
Members of the Pulaski County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Pulaski County Clerk for the year ended December 31, 2004, and have issued our report thereon dated June 7, 2005. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pulaski County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The County Clerk's Office Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the lack of adequate segregation of duties to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pulaski County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Clerk Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Enter Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 7, 2005

